



# Institutional Risk Assessment – Observations and Common Deficiencies

*AML Seminars, Hong Kong Central Library*

**3<sup>rd</sup> & 5<sup>th</sup> November 2015**

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# Institutional Risk Assessment – Development



- **Requirement to assess risks**
  - Pre and Post AMLO
- **Revision in international standards [2012]**
  - Significant emphasis on Risk Based Approach (RBA)
- **HKMA's circular in December 2014**
  - Clear articulation of supervisory expectation
  - AIs should assess and understand risks at institution and customer level
  - AIs should demonstrate effective implementation but flexibility afforded in execution
- **Will continue to be a focus of HKMA supervision**



# Institutional Risk Assessment – Use



- **Identify and remediate gaps in AML/CFT system**
  - Should be part of the AI's self-evaluation
- **Board level decisions – *should be informed by risk***
  - Ensure effective implementation of control efforts
  - Develop risk appetite
  - Ensure resources aligned with risks
  - Assist in strategic decisions
- **Ensure regulators are aware of key risks**
- **Operationalises the risk based approach**



# Institutional Risk Assessment



## ➤ **What level of detail is required?**

- We will look at the process by which assessment is conducted, how conclusions are drawn
- Many ways in which requirement can be met
- Complexity will vary according to AI and development of assessment
- Lack of sensitivity or granularity to specific risks can dilute effectiveness

## ➤ **Dynamic process**

- Need to be kept update



# Institutional Risk Assessment



*“The risk assessment should (1) consider all relevant inherent ML risk factors in order to determine its risk profile and (2) in turn assess the nature of mitigating controls, both from a design and operating effectiveness standpoint, in order to (3) arrive at the residual risk, which should be within the FI’s established risk appetite.”*

**Wolfsberg paper – FAQs on Risk Assessment for ML, Sanctions and Bribery & Corruption (2015)**



# Institutional Risk Assessment

## *Observations*



- Increasing number of AIs recognized the importance of ML/TF risk assessment in risk management process
- Improvement in depth and breadth of AIs' risk assessment observed
  - Some AIs recognize that development will take time
- Some AIs can develop adequate risk assessment framework
  - Adequate coverage of all relevant risk factors
  - Quantitative analysis supporting qualitative assessment
  - Assessment of emerging and / or significant risks (e.g. sanction risk)
  - Trend analysis of ML/TF risks taking into account latest business and regulatory landscapes



# Institutional Risk Assessment

## *Common deficiencies (1)*



- **Written form of institutional risk assessment**
  - Some AIs provided description of AML/CFT “system” rather than ML/TF risk assessment
  - Irrelevant documents provided, rationale unclear (e.g. IA reports)
- **Assessment of inherent risks**
  - Not the same as customer risks
  - Involves quantitative analysis and qualitative assessment
  - AI's own assessment should be more detailed / granular



# Institutional Risk Assessment

## *Common deficiencies (2)*



- **Provision of statistical data has proved challenging for some AIs**
  - AIs should critically examine how they collect and use data for AML/CFT work
  - Effective AML/CFT system are data hungry
    - IT shortcomings are common features in deficient AML/CFT systems
  - Where data is not available part of action plan should include system remediation



# Institutional Risk Assessment

## *Common deficiencies (3)*



- **Application of mitigating measures / control and articulation of risk appetite**
  - AIs should consider how mitigating measures would reduce risks
  - Link between inherent risks and mitigating measures / controls is a key part of the process
  - Important to consider residual risk
  - Articulation of risk appetite
    - Is the residual risk within the appetite of the AI? If not, what actions need to be taken?



# Institutional Risk Assessment

## *Common deficiencies (4)*



- **Assessment of risks in local context**
  - Risk assessment developed at regional / global level must take into account local ML/TF risks
  - ML/TF risk assessment should cover overseas branches / subsidiaries
- **Others**
  - Should not read as a “good news” document
  - Risk assessment should honestly reflect the ML/TF risk level and effectiveness of the control



# Reference



- BCBS paper – Sound Management of ML/TF Risks (Jan 2014)  
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- FATF paper – Risk-Based Approach for the Banking Sector (Oct 2014)  
(<http://www.fatf-gafi.org/media/fatf/documents/reports/Risk-Based-Approach-Banking-Sector.pdf>)
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- HKMA circular – ML/TF Risk Assessment (19 Dec 2014)  
(<http://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2014/20141219e1.pdf>)
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# Thank You

